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#### BOS Estimates GDP Fell 1.1 Percent in 2008 Q4

1.(U) The Bank of Spain estimated January 28 that fourth quarter 2008 GDP was 1.1 percent below the third quarter level. If, as is expected, the National Institute of Statistics figures that will be released in February match this estimate, this will be the second consecutive quarter-on-quarter decline, placing Spain officially in a recession. (Bank of Spain Economic Bulletin, 1/28)

#### Prices Drop for Third Straight Month

2.(U) The harmonized consumer price index fell by 0.7 percent in January, the third straight decline. This reduces inflation over the last 12 months to 0.8 percent, the lowest figure in the twelve-year history of the index. The general consumer price index figure will be released in two weeks. If, as is expected, it is almost identical to the harmonized figure, year-on-year inflation will be at its lowest level since June 1969. The decline is in line with GOS predictions that inflation would continue declining for the first few months of 2009. (Europa Press)

#### La Caixa Savings Bank First to Issue GOS-Backed Debt

3.(U) Spain's largest private savings bank ("caja"), "La Caixa," became the first to take advantage of a GOS guarantee of new bank debt when it issued 2 billion euros worth of senior 3-year bonds on January 29. La Caixa representatives reassured investors that this debt issuance was part of their 2008-2011 strategic plan. Spanish banks have universally asserted the health of the domestic financial sector, saying that government capital infusions will not be necessary, as

they have been elsewhere in Europe. To encourage lending, the GOS has agreed to guarantee up to 100 billion euros in bank debt. (El Pais, Reuters 1/29)

#### Major Banks' Profits Highlight Strength of Financial Sector

4.(U) Spain's major banks, including Banco Santander, BBVA, Banco Popular, Sabadell, and Banesto, have announced positive net profits for 2008, although in most cases 6-18 percent lower than 2007 levels. Santander, Spain's and the eurozone's largest bank, was the exception, posting a 9 percent increase in net profits, which reached 8.9 billion euros. The 2008 profits of Spain's largest financial institutions reflect the continuing strength of its financial sector, which has fared well vis-a-vis those of its European counterparts. However, bank share prices have plunged, Spanish banks have acknowledged Spain's worsening domestic economy, and some (such as Banco Popular) have increased provisioning in expectations of higher levels of non-performing loans in 2009. Spain's economy has been greatly affected by a sharp downturn in the formerly overheated residential housing market. The larger banks and "cajas" are expected to weather the storm, while regional-based and smaller "cajas" with greater exposure to the housing market are expected to face challenges in the upcoming year. (El Pais, El Confidencial, Expansion, 1/29-30)

#### Santander to Reimburse Madoff Victims

5.(U) Banco Santander announced January 27 that it will compensate its private clients affected by the Madoff fraud for the amount of their initial investment, provided the individuals agree to take no legal action against Santander

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and maintain their accounts with the bank. The bank will issue its clients low-interest bonds with a face value of 1.38 billion euros, the total of the initial investments, at an estimated actual cost to the bank of 500 million euros. The majority of Santander's private clients affected by the fraud hail from Spain and Latin America. Separately, Latin American clients filed suit against Santander and other parties in a Florida court. (All Media, 1/28)

#### Telecoms Regulator Supports Telefonica Sole Use of High Speed Lines

6.(U) National telecommunications regulator CMT announced January 23 that it had approved final regulations guaranteeing telecoms giant Telefonica sole use of any internet high-speed lines over 30 megabytes per second (Mbps) that it lays down. Under this decision, Telefonica will only be obligated to offer wholesale access to competitors for its slower lines of under 30 Mbps. The decision was publicly criticized by EU Commissioner for Information Society Viviane Reding, who noted that competitors and consumers would suffer because "alternative operators can not compete effectively with Telefonica." The decision to approve the regulation was reportedly controversial even within the CMT's board. However, the CMT as a whole has argued that it wants to reward operators who are willing to lay down high-speed internet lines, and forcing Telefonica to share its high speed fiber optic lines may inhibit the company's decision to invest in that infrastructure. (Cinco Dias, Reuters 1/30; El Pais 1/26; CMT website)

#### Repsol Announces New Gas Field Finds in Algeria

7.(U) Energy giant Repsol announced January 26 that it had discovered three gas fields in Algeria with the capacity of producing up to 1 million cubic meters of gas per day. Repsol has a significant share (34-45 percent) in the

consortia linked to the blocks in which the new gas fields were discovered (Reggane basin, Ahnet basin, and Gassi Ghergui), and operates the actual wells. Algeria is the source of more than a third of Spain's natural gas imports. In late 2009, the new Medgaz pipeline between Beni Saaf, Algeria and Almeria, Spain is expected to be in operation. (All Media, 1/26)

CHACON